

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

April 19, 2011

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee met on Tuesday, April 19, 2011, at 1:00 p.m., in Room 171 of the Capitol Annex. The meeting was called to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Jim Glenn, Co-Chair; Senators Tom Buford, Jared Carpenter, and Julian M. Carroll; Representatives Robert R. Damron, Steven Rudy, and Jim Wayne.

Guests: John Hicks, Governor's Office of Policy Management; Sam Ruth, Department for Facilities and Support Services; Charlie Harmon, Department of Education; Charles Bush, Division of Real Property; Sandy Williams and Kasi White, Kentucky Infrastructure Authority; Katie Smith, Cabinet for Economic Development; Tom Howard and Brett Antle, Office of Financial Management; Mike Walters, Morehead State University; and Lisa Collins, School Facilities Construction Commission.

LRC Staff: Kristi Culpepper and Samantha Gange.

Approval of Minutes

Representative Wayne made a motion to approve the minutes of the March 15, 2011, meeting. The motion was seconded and approved by voice vote.

Election of Senate Co-Chair

Kristi Culpepper, Committee Staff Administrator, indicated that pursuant to KRS 45.790, a Co-Chair election was needed for the positions of Senate and House Co-Chairs. Senator Carpenter nominated Senator Leeper for the position of Senate Co-Chair. The motion was seconded by Senator Buford. Senator Buford then made a motion that nominations cease and that Senator Leeper be elected as Senate Co-Chair by acclamation. The motion was seconded by Senator Carroll and approved by voice vote.

Election of House Co-Chair

Representative Damron nominated Representative Glenn for the position of House Co-Chair. The motion was seconded by Representative Wayne. Representative Damron then made a motion that nominations cease and that Representative Glenn be elected

House Co-Chair by acclamation. The motion was seconded by Representative Rudy and approved by voice vote.

Correspondence Items

Representative Glenn asked Ms. Culpepper to discuss correspondence items. Ms. Culpepper said members' folder contained three items of correspondence. The first item of correspondence was a letter from the Kentucky Housing Corporation (KHC) notifying the committee that KHC is structuring a transaction with \$30 million in funding from the US Treasury's New Issue Bond Program, which is expected to close in May.

The next two items of correspondence were from the University of Kentucky (UK) to notify the committee that UK plans to use the Construction Management-at-Risk project delivery method for the Upgrade Student Center Infrastructure and Construct Second New Housing North Campus projects.

Information Items

Ms. Culpepper said members' folders also contained six information items. The first three information items were the quarterly status reports on capital projects for the Finance and Administration Cabinet and the universities that manage their own capital construction programs; the Administrative Office of the Courts; and the Commonwealth Office of Technology. The fourth item of correspondence was a report from Moody's Investors Service explaining its decision to downgrade the state's issuer credit rating to Aa2; the fifth item of correspondence was the Semi-Annual Report of the Kentucky Asset/Liability Commission; and the last items of correspondence were the staff and bond market updates.

University of Louisville (UL) Scientific Research Equipment

Ms. Culpepper said UL was reporting that it has used \$601,000 of federal funds to purchase two unbudgeted items of scientific research equipment for the school's Rapid Prototyping Center and the Speed School of Engineering.

Project Scope Increase from the Finance and Administration Cabinet

Representative Glenn asked John Hicks, Deputy Director, Governor's Office of Policy Management; and Sam Ruth, Commissioner, Department for Facility and Support Services; to present several items. Mr. Hicks said the Finance and Administration Cabinet is requesting approval of a scope increase for the Department of Education (DOE), Enhance Kentucky Statewide Longitudinal Data System project. The scope increase is \$291,000 with a revised project scope of \$3,169,400. The additional funds will be provided by a US Health and Human Services Head Start grant. The project will provide pre-Kindergarten population data to enhance the longitudinal system architecture from the pre-Kindergarten level through the postsecondary level.

Representative Glenn asked when the system would be fully implemented. Charlie Harmon, Budget Director, DOE; said the primary education system has been fully implemented and the postsecondary education system is currently in progress. He said the scope increase requested is for the pre-Kindergarten system, which will be implemented in the coming months.

Representative Wayne made a motion to approve the scope increase. The motion was seconded by Representative Damron and passed unanimously by roll call vote.

Reports of Pool Projects in Excess of \$600,000 for the Department for Facilities and Support Services.

Mr. Ruth said the first pool project was for the Cooling Tower Replacement, Capital Plaza Tower. The appropriation is \$1,200,000 and is provided from the 2010 Extraordinary Session HB1 (2010-12 Budget) Bond-Funded Maintenance Pool. The existing cooling tower is approximately 40 years-old and continued repairs are no longer economically feasible.

The second pool project was for the Renovation of the Old Surplus Property Building on Barrett Avenue in Frankfort, KY. The appropriation is \$1,500,000 and is provided from the 2008 HB 406 (2008-10 Budget) Bond-Funded Maintenance Pool. Once renovations are made, the Department of Revenue will relocate state employees from leased space into state-owned space.

The third pool project was for the Education Center project (Capitol Grounds Tourism Enhancement). The appropriation is \$988,000 and is provided from the 2006 HB 380 (2006-08 Budget) Bond-Funded Maintenance Pool and the 2008 HB 406 (2008-10 Budget) Bond-Funded Maintenance Pool. As a result of this project, an Education Center will be available for visitors of the capitol campus and will serve as a showcase for green technology.

The fourth pool project was for the Capitol Annex Roof Replacement project. The original project was for \$1,500,000 and was reported to the committee at its July 2010 meeting, as a project pool in excess of \$600,000. The scope of the project has increased to \$1,650,000 due to some unforeseen conditions such as masonry problems and a deteriorated gypsum deck. The scope increase will be provided from the 2006 HB 380 (2006-08 Budget) Bond-Funded Maintenance Pool and the 2008 HB 406 (2008-10 Budget) Bond-Funded Maintenance Pool. No action is required on pool projects in excess of \$600,000.

Representative Glenn asked what the remaining balances were for the 2006-08 and the 2008-10 Bond-Funded Maintenance Pools. Mr. Hicks said the Finance Cabinet is in the process of finishing out the 2006-08 pools, and near finishing out the 2008-10 pools.

Senator Buford asked if the Bond-Funded Maintenance Pools from all budget cycles, including the most recent one are satisfactory. Mr. Hicks said the pools have allowed the department to do various maintenance and renovation projects that were not included in the budget. However, he indicated that in the areas of Corrections, Mental Health, and Department of Parks the maintenance pools have been insufficient.

Representative Wayne said he is aware that the Capital Plaza Tower is old and has been deteriorating. He asked what the status was on replacing the building. Mr. Ruth said the department has completed a Phase A Design. The replacement of the facility is included as a top priority in the department's capital plan. He indicated funding is needed for the project to move forward.

Report of Lease Renewals with an Annual Cost Exceeding \$100,000

Representative Glenn asked Charles Bush, Director, Division of Real Property, Finance and Administration Cabinet, to report eight lease renewals. Mr. Bush said the first lease renewal was for the Cabinet for Health and Family Services (CHFS) in Montgomery County (PR-2829) for office space with an annual rental cost of \$130,356. The lease is through June 30, 2012 and includes utilities.

The second lease renewal was for the Department for Libraries and Archives in Franklin County (PR-3388) for warehouse space with an annual rental cost of \$192,948. The lease term is through June 30, 2014 and includes utilities.

The third lease renewal was for the Department of Agriculture in Franklin County (PR-3482) for office space with an annual rental cost of \$246,489. The lease term is through June 30, 2014.

The fourth lease renewal was for the CHFS in Franklin County (PR-3734) for office space with an annual rental cost of \$419,103. The lease term is through June 30, 2014.

The fifth lease renewal was for the Department of Revenue in Franklin County (PR-3747) for office and warehouse space with an annual rental cost of \$181,339. The lease term is through June 30, 2014.

The sixth lease renewal was for the Department of Public Advocacy in Franklin County (PR-3764) for office space with an annual rental cost of \$285,762. The lease term is through June 30, 2014.

The seventh lease renewal was for the Department of Agriculture in Franklin County (PR-4505) for office and laboratory space with an annual rental cost of \$182,793. The lease term is through June 30, 2014.

The eighth lease renewal was for the Department of Agriculture in Franklin County (PR-4804) for office and laboratory space with an annual rental cost of \$199,800. The lease term is through June 30, 2014.

In response to a question from Representative Glenn, Mr. Bush said the variance in the cost of square footage pertains to the type of space needed such as office or warehouse space.

Senator Leeper asked why only two of the lease renewals include utilities. Mr. Bush said that some of the older buildings include utilities and the newer ones do not. He said that newer leases do not typically include utilities.

Senator Carroll made a motion to approve the eight lease renewals. The motion was seconded by Representative Damron and approved unanimously by roll call vote.

Kentucky Infrastructure Authority (KIA) Fund B Loans

Representative Glenn asked Sandy Williams, Financial Analyst, KIA, to present several loans. Ms. Williams said the first request was a Fund B loan assumption for the MuniNet Fiber Agency (MFA) in McCracken County. The committee approved the original Fund B loan request at its July 16, 2009, meeting. The MFA is seeking to assume \$2,446,557 in outstanding Infrastructure Revolving Fund B loan debt of the City of Murray as a result of the creation of the MFA. The loan terms will remain the same as with the original loan, 1.57 percent interest rate with a 20 year term.

Discussion of KIA Fund B Loan Assumption for MFA

Representative Damron said he thought that KIA only made loans for water and sewer projects not for broadband projects. Ms. Williams said statutorily KIA has the ability to loan money to governmental agencies such as MFA, which includes electric and broadband. She said several years ago KIA added a section to the Fund B program that specifically identified broadband and internet usage as an area they would target. KIA has set aside a small amount of funds for that purpose.

Representative Damron asked if KIA currently had Fund B loan applications for water and sewer that KIA is not able to award. Ms. Williams said that the Fund B loan program works on a first come first serve basis. She said KIA is currently able to cover all Fund B loan applications for water and sewer.

Representative Damron said he was concerned about making loans to governmental agencies for internet when there is such a need for water and sewer projects across Kentucky, especially rural areas.

Senator Carroll asked why KIA would fund broadband projects when there is a funding need for water and sewer projects. Ms. Williams said projects such as the one with MFA provide for economic development in certain areas.

In response to a question from Senator Leeper, Ms. Williams said the committee has approved approximately six Fund B loans for broadband or internet projects.

Representative Wayne asked if KIA notifies local governments that funds are available for water and sewer projects. Ms. Williams said KIA provides training sessions for local water and sewer entities across the state throughout the year. Additionally, KIA meets with Area Water Development Councils. For the federally-funded programs an Intended Usage Plan is published and available to the public.

Senator Buford asked if the debt would be guaranteed by the Cities of Murray and Paducah. Kasi White, Financial Analyst, KIA, said that MFA was formed with an interlocal agreement between the two cities. The agreement states that any obligation of the agency is also an obligation of the governmental entity.

In response to a question from Senator Buford, Ms. White said the usage rates are for businesses. She noted that the project would service local governments, libraries, and hospitals. She indicated there is a great need for broadband service for businesses in this area.

Representative Damron asked how much is available in Fund B for broadband projects. Ms. Williams said approximately \$500,000.

KIA Fund B Loans Continued

Ms. Williams said the second request was a \$141,700 Fund B loan for the City of Elkton in Todd County for the West Main, Commerce, and 68/80 Sewer Extension project. The loan term is 20 years with an interest rate of one percent. The required rate increase associated with the project was approved by the City Council.

Ms. Williams said the third loan request was a \$2,033,947 Fund B loan for the MFA for the Fiber Optic Cable Build Project #1. The loan term is 20 years with an interest rate of two percent.

In response to a question from Representative Glenn, Ms. Williams said local officials have been working hard to provide broadband service to businesses in Western Kentucky.

Senator Carroll made a motion to approve the Fund B loan assumption and the two Fund B loans. The motion was seconded by Representative Wayne. Seven members voted “yes” and one member passed. The motion carried.

KIA Fund F Loans

Ms. Williams said the fourth loan request was a \$2,080,000 Fund F loan for the City of Brandenburg in Meade County for the Water Treatment Plant Upgrade and Expansion project. The loan term is 20 years with an interest rate of two percent.

The fifth loan request was a \$1,633,000 Fund F loan for the Bullock Pen Water District in Grant County for the construction of a 500,000 gallon water storage tank, pump station, new water lines, and replacement water lines. The loan term is 20 years with an interest rate of two percent.

Representative Wayne made a motion to approve the two Fund F loans. The motion was seconded by Representative Damron and passed unanimously by roll call vote.

KIA Grants

Ms. Williams indicated three non-coal development grants authorized by the General Assembly were included in members' folders. No further committee action was needed.

Economic Development (EDB) Pool Grant

Representative Glenn asked Katie Smith, Deputy Commissioner, Department for Financial Incentives, Cabinet for Economic Development, to present two items. Ms. Smith said the first item was a \$500,000 EDB grant to the City of Morgantown for the benefit of Sequa Automotive Group to offset the cost of improving and equipping approximately 60,000 square feet of unused space at its current manufacturing facility. The space will be used to produce automobile airbag inflators. Pursuant to the EDB grant agreement, the company must create 280 new, full-time jobs for Kentucky residents with an average hourly wage of \$12.98, excluding benefits.

Representative Glenn asked who the company will be supplying airbags to and if it was in close proximity to Kentucky. Ms. Smith said she thought Sequa was supplying the airbags to a manufacturing company in Tennessee.

Senator Carroll made a motion to approve the EDB grant project. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

EDB Pool Project – Base Realignment and Closure (BRAC)

Ms. Smith said the second item was a \$1,800,000 EDB BRAC grant to the City of Vine Grove for the Highway 313 Sewer Expansion project. The 2010 General Assembly (Extraordinary Session) authorized \$38,495,000 in HB 1 (2010-2012 Budget) of General-Fund supported bond funds for BRAC projects. With this project, the balance of funding

provided in the total appropriation for BRAC-related projects will have been allocated. No committee action is needed for BRAC projects.

New Bond Issue – Morehead State University

Representative Glenn asked Tom Howard, Executive Director, and Brett Antle, Deputy Director, Office of Financial Management, to present several items. Mr. Howard said the first item was a new bond issue for Morehead State University General Receipts Bonds, 2011, Series A. The par amount of the bonds is \$5,060,000. Bond proceeds will finance the renovation of East Mignon Residence Hall as authorized in 2010 Extraordinary Session HB 1 (2010-12 Budget).

Representative Glenn asked if this bond issue will affect the tuition rate for students. Mike Walters, Vice President for Administration and Fiscal Services, Morehead State University, said that tuition rates would not be affected by this bond issue.

Representative Wayne made a motion to approve the new bond issue. The motion was seconded by Senator Carroll and passed unanimously by roll call vote.

Follow-up Report for Previously Approved Bond Issue

Mr. Antle said the second item was a follow-up report for Kentucky Asset/Liability Commission Funding Notes, 2011 General Fund First Series (Taxable). Proceeds from this transaction will finance the state's share of obligations owed to the Kentucky Teachers Retirement System (KTRS) Medical Insurance Trust Fund for fiscal years 2011 and 2012 (\$145.9 million and \$122.5 million, respectively). The bond issue was not approved by the committee prior to issuance because the February 2011 meeting was cancelled. No committee action was needed.

In response to a question from Senator Carroll, Mr. Antle indicated no redirections from the pension have yet been made this fiscal year. This transaction funded the amount the state was obligated to pay for fiscal year 2011 and the full-amount obligated for fiscal year 2012.

Senator Carroll asked what the total amount of the transaction was. Mr. Antle said the total amount from this transaction is \$268.4 million. He said there was a \$468 million transaction done last fall that refunded all of the prior loans that had been made from fiscal years 2005 to 2010.

In response to a question from Senator Leeper, Mr. Hicks said this transaction concludes the budgeted plan for fiscal years 2011 and 2012. He said the new statute that creates additional funding streams for KTRS Medical Fund will obviate the need for some of the borrowing that would otherwise be taking place. The medical fund will still require General Fund support over the next few fiscal years, but beyond that the plan will be self-funded.

School Bond Issues

Mr. Antle reported five new bond issues with School Facilities Construction Commission (SFCC) debt service participation for Augusta Independent in Bracken County, Bellevue Independent in Campbell County, Boyle County, Franklin County, and Kenton County.

In response to a question from Representative Wayne, Lisa Collins, School Facilities Construction Commission, said Augusta Independent is a very small school, but she is not sure on the numbers. She said she would provide the information to committee staff.

Senator Carroll made a motion to approve the five new SFCC bond issues. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Representative Glenn asked Ms. Culpepper to report new local school district bond issues. Ms. Culpepper said there were seven local school district bond issues with 100 percent locally-funded debt service for Grayson County, Hardin County, Jefferson County, Jessamine County, Kenton County, Paducah Independent in McCracken County, and Pulaski County.

With there being no further business, Representative Rudy made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned at 2:20 p.m.